

# MyFolio Due Diligence Report

Quarter 2 2019



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# About Aberdeen Standard Investments

Aberdeen Standard Investments is dedicated to helping investors around the world reach their desired investment goals and broaden their financial horizons.

We seek to provide world-class investment expertise across a breadth of markets and asset classes. Our full range of solutions spans equities, multi-asset, fixed income, liquidity, sovereign wealth funds, real estate and private markets. Coupled with a range of investment approaches, from quantitatively-managed 'smart beta' to highly active alpha-seeking strategies, we transform new investment ideas into practical investment products designed to deliver real value for money to investors.

We have one of the world's largest teams of investment professionals with approximately 1,000 portfolio managers, analysts and product, risk and trading specialists located globally

ensuring close proximity to our clients and the markets in which we invest. In addition, we have 500 client specialists working closely with investors and professional advisors to understand their goals and deliver innovative, world class investment solutions. Today, we manage £505.1 bn of assets on behalf of governments, pension funds, insurers, companies, charities, foundations and individuals across 80 countries (as at 31 December 2018). The largest active asset manager in the UK, we are also one of the top five asset managers headquartered in Europe and one of the biggest active asset managers worldwide not owned by a bank. As a responsible global investor, we leverage our scale and market leadership to raise standards in both the companies and industries in which we invest, and drive best practice across the asset management industry.

**Aberdeen Standard Investments is a brand of the investment businesses of Aberdeen Asset Management and Standard Life Investments.**

# MyFolio Investment Process

The MyFolio funds are managed by the Multi-Manager Solutions Team at Aberdeen Standard Investments, headed by Bambos Hambi.

The Team is supported in the management of the MyFolio funds by a number of our key investment professionals, in the Strategic and Tactical Asset Allocation, Fund Selection and Governance functions.

## Strategic Asset Allocation

The Strategic Asset Allocation (SAA) for the funds is determined by Aberdeen Standard Investments in consultation with Moody's Analytics, a world leader in financial risk modelling. The SAA is formally reviewed on a quarterly basis on completion of the Moody's Analytics analysis.

Moody's Analytics undertake a risk/return optimisation process using the appropriate strategic asset classes as agreed with Aberdeen Standard Investments and make recommendations to Aberdeen Standard Investments as to the optimum strategic mix of those assets. The mix of assets is constrained to ensure a suitably diversified portfolio is achieved. The constrained optimisation process uses a 10 year time horizon to construct the strategic asset allocation benchmarks with the aim of generating optimal returns for each level of risk over the period. The resulting asset allocations are used to populate the asset mix "pots" for the MyFolio Market Funds.

## SAA for MyFolio Managed and Multi-Manager Funds

For the two suites of active MyFolio Funds there is an additional step. Aberdeen Standard Investments believe that there are benefits from exploring additional diversifying growth and defensive assets in the MyFolio Managed, Multi-Manager and Multi-Manager Income ranges.

## Tactical Asset Allocation

Tactical Asset Allocation (TAA) positions for each fund will be decided by the Multi-Asset Investing (MAI) Team within Aberdeen Standard Investments. The MAI Team will apply their tactical investment views to fine tune the strategic asset allocation and

take advantage of shorter term opportunities. In practice this will tilt the strategic asset allocation benchmarks in the direction of favoured asset classes over the shorter term. The TAA positions implemented across the multi-asset portfolios are reviewed on a regular basis with any changes being driven by a change in recommendation from the Global Investment Group (GIG), the team that collates our House View or by a change in the benchmark weighting in a specific asset class.

The nature of the five risk based funds requires disciplined strategic risk controls consistently applied across the suite of funds, therefore the maximum TAA positions permissible within each asset class is + /- 5%. An additional risk control is also applied at defensive and growth assets level. This higher level constraint is at the same level of +/- 5%.

## Fund Selection

### MyFolio Market Funds

Fund selection for the Market Funds is largely centred on finding suitable tracker funds to replicate the performance of the strategic asset class benchmarks. The key selection criterion is confidence in the underlying Fund Managers to deliver a low tracking error fund at a competitive price.

The selection of the active real estate and active high yield bond funds follows the same process as for other active external managers with the aim of creating a well-diversified basket of assets that can act as a proxy for their respective markets.

### MyFolio Managed Funds

The funds selected for the Managed Funds are primarily selected from those managed by Aberdeen Standard Investments. There is a wide range of quality funds available across the majority of the asset classes. Where there is not a suitable Aberdeen Standard Investments fund the Fund Manager will seek to invest in funds from the rest of the market.

### MyFolio Multi-Manager Funds

We apply a consistent tried and tested manager selection process to capitalise on opportunities we identify. By undertaking a combination of both quantitative and qualitative due diligence we aim to filter a large universe of funds into a select group of funds which represent 'best of breed' solutions.

## Portfolio Construction

From a rigorously researched position, we construct efficient, well-diversified, active portfolios with a risk/reward profile appropriate to the fund's stated mandate. In doing so, we will seek to generate superior risk-adjusted returns in a consistent manner throughout the economic cycle.

Once we invest in a fund, it is continuously monitored in order to identify any changes that could impact future returns. We recognise the importance of having a strong sell discipline and therefore consider our monitoring process as important as the initial selection. Monitoring our risk exposures also allows us to highlight any unintended risks that may emerge in our portfolios, so that we can remove them before they begin to impact returns.

The Fund Manager has ultimate responsibility for ensuring that any fund selected is an appropriate selection for the asset class the fund has been chosen to represent.

## Fund Rebalancing

Aberdeen Standard Investments aim to always keep trading costs to a minimum whilst ensuring funds remain within their agreed risk parameters.

Fund holdings are reviewed daily to determine what, if any, re-balancing is required as a result of market movements and cash flow. Daily re-balancing back to an exact pre-determined TAA position without any tolerance levels would, we believe, be counter productive from a cost perspective.

As such we consider three key areas on a daily basis, asset allocation tolerance, portfolio tracking error and deal size to determine our dealing strategy for the fund.

**Asset allocation tolerance** – we aim to keep the daily positions of each asset class within +/-1.25% of the TAA position

**Portfolio Tracking Error** – we aim to have a low daily tracking error relative to the default portfolio position

**Deal size** – deal sizes are considered to ensure dealing costs are not disproportionately high relative to the cash allocation.

Before any deals are struck we go through an iterative process that determines the most cost effective dealing strategy taking into account the above factors. We believe we add value through this process by keeping dealing costs low whilst ensuring the funds remain within their defined risk parameters.

## Risk Management & Control

### Portfolio Risk Management

There is an extensive risk management infrastructure to ensure that the Multi-Manager Strategies and MAI Team operate within the investment framework. Risk is monitored and controlled by a combination of organisational structures and processes. There are three distinct groups engaged in the risk management process for MyFolio:

**Multi-Manager Strategies Team** – undertakes risk analysis at portfolio level. On top of backward looking risk measures such as information ratios, monthly underlying holdings are received from fund groups to understand forward looking risk indicators. For all funds we own (and before purchase of a new fund), we insist on monthly portfolio holdings data by the 15th day of every month. For all investment groups that we deal with, we have arranged Non-Disclosure Agreements which are signed-off by both parties' legal teams to ensure confidentiality.

**Investment Risk Team** – our Investment Risk Team works independently and are responsible for monitoring the performance and risk characteristics of the portfolios managed at Aberdeen Standard Investments. We utilise Industry standard systems – such as RiskMetrics, SunGard APT and UBS Delta to measure and monitor risk.

**Investment Governance Team** – working independently this team is responsible for ensuring the consistency and integrity of the operation of the investment process versus specification/ mandate.

### Risk Management

The Investment Restrictions Control Team's sole responsibility is to monitor positions within funds on a daily basis, and ensure compliance with regulatory and client-driven investment restrictions and guidelines. This team is managed independently from our asset management teams and reports to the Director of Investment Governance.

# Performance Summary

## Growth funds

	3 mths Total Return %	12 mths Total Return %	3 yrs PA %	5 yrs PA %	Launch* Total Return %	Launch* PA %	Volatility 3 yrs Std Dev %
Managed I	1.3	2.4	3.3	3.3	42.5	4.1	3.3
Managed II	1.4	1.4	4.4	4.4	57.6	5.3	4.5
Managed III	1.8	0.7	5.8	5.3	74.2	6.6	5.8
Managed IV	1.8	-0.1	7.0	6.2	84.3	7.2	7.2
Managed V	2.6	-0.5	7.9	7.0	96.9	8.0	8.7
Market I	2.2	4.4	4.3	4.5	48.7	4.6	3.5
Market II	2.8	4.2	6.1	5.8	68.1	6.1	4.8
Market III	3.6	4.7	8.1	7.1	84.5	7.2	6.2
Market IV	4.1	4.8	9.9	8.3	98.8	8.2	7.9
Market V	5.2	5.1	11.5	9.5	114.6	9.1	9.7
Multi-Manager I	2.0	2.5	3.3	3.4	38.7	3.8	3.0
Multi-Manager II	2.3	1.9	4.8	4.6	55.7	5.2	4.1
Multi-Manager III	2.7	1.4	6.2	5.5	69.5	6.2	5.5
Multi-Manager IV	2.9	0.7	7.4	6.5	84.1	7.2	6.9
Multi-Manager V	3.4	0.2	8.4	7.3	93.7	7.8	8.5

	Discrete Annual Performance %				
	30/06/2014 to 30/06/2015	30/06/2015 to 30/06/2016	30/06/2016 to 30/06/2017	30/06/2017 to 30/06/2018	30/06/2018 to 30/06/2019
Managed I	4.4	2.6	6	1.5	2.4
Managed II	6.6	2.1	9.2	2.9	1.4
Managed III	8.3	1	12.5	4.6	0.7
Managed IV	9.6	0.3	15.7	5.9	-0.1
Managed V	10.9	0.8	18.4	6.7	-0.5
Market I	4.8	4.5	6.6	2	4.4
Market II	6	4.7	10.9	3.4	4.2
Market III	6.5	4.6	15	5	4.7
Market IV	7.2	4.7	19.2	6.4	4.8
Market V	7.8	5.4	22.9	7.2	5.1
Multi-Manager I	4.5	2.3	6.4	1.2	2.5
Multi-Manager II	6.7	2	10.2	2.5	1.9
Multi-Manager III	7.6	1.6	13.7	3.7	1.4
Multi-Manager IV	9.2	1.3	17.3	4.9	0.7
Multi-Manager V	10.1	1.6	20.5	5.6	0.2

\*Launch: 01 October 2010

Source: Aberdeen Standard Investments, Morningstar, 30 June 2019, institutional accumulation share class performance shown. Standard deviation based on 36 monthly data points.

# Performance Summary

## Income funds

	3 mths Total Return %	12 mths Total Return %	3 yrs PA %	5 yrs PA %	Launch** Total Return %	Launch** PA %	Volatility 3 yrs Std Dev %
Multi-Manager Income II	2.7	3.1	4.3	3.9	43.9	5.0	4.1
Multi-Manager Income III	2.9	2.6	5.4	4.6	59.3	6.4	5.4
Multi-Manager Income IV	4.0	2.9	6.2	5.0	63.2	6.7	6.7

	Discrete Annual Performance %				
	30/06/2014 to 30/06/2015	30/06/2015 to 30/06/2016	30/06/2016 to 30/06/2017	30/06/2017 to 30/06/2018	30/06/2018 to 30/06/2019
Multi-Manager Income II	4.6	2.1	8.9	1.1	3.1
Multi-Manager Income III	4.4	2.4	11.9	2.0	2.6
Multi-Manager Income IV	4.7	1.8	13.7	2.4	2.9

\*\* Launch: 06 January 2012

Aberdeen Standard Investments, Morningstar, 30 June 2019, institutional accumulation share class performance shown. Standard deviation based on 36 monthly data points.

# Strategic Asset Allocation Update

The Strategic Asset Allocation Committee	
<b>Archie Struthers (Chair)</b> Global Head of Investment Governance and Oversight	Archie is responsible for ensuring that agreed investment processes are applied by the investment teams and that investment actively is consistent with both regulatory requirements and investment guidelines.
<b>Stephen Acheson</b> Executive Director, Global Head of Insurance	Stephen has responsibility for the provision of investment management services and support to the wider global Standard Life Aberdeen group, covering both Retail and Institutional operations.
<b>James Esland</b> Investment Director - Multi-Asset Investing	James is responsible for the Investment Management processes for Global Absolute Returns and Liability Driven Investment products. He also makes the Tactical Asset Allocation decisions for MyFolio.
<b>Bambos Hambi</b> Co-Head of Multi-Manager Strategies	Bambos has overall responsibility for the portfolio management of the 25 MyFolio funds. Bambos also heads up the Multi-Manager Strategies Team.
<b>Iain McLeod</b> Investment Director - Multi-Asset Investment Specialist	Iain is responsible for the development, technical support and promotion of the full range of Aberdeen Standard Investments' multi-manager funds.
<b>Eddie Middleton</b> Global Head of Investment Governance	Eddie is responsible for two functions within Investment Governance: quantitative risk processes and investment processes.
<b>Joe Wiggins</b> Head of Portfolio Management	Joe is responsible for the management of a range of multi-asset, fund of funds, including the MyFolio SICAV range. He is integral to the assessment, analysis and suitability of the asset classes utilised within the strategic asset allocation models.

We review the Strategic Asset Allocation (SAA) for each of the funds every quarter, with the aim of ensuring that we continue to meet investors' long-term investment expectations. At the most recent review, we made no changes to the SAA model.

# Tactical Asset Allocation Update

Within Tactical Asset Allocation (TAA), we made the following changes (where applicable within each risk level).

- Increased our holding in emerging market debt (to overweight versus the SAA)
- Reduced our holding in cash and money markets (while remaining overweight versus the SAA)

During the second quarter, we increased our holding in growth assets through the purchase of emerging market debt. We continue to see the appeal of investing in assets that provide income (we already hold high yield debt) and believe the current

environment is favourable for emerging market debt. Valuations are attractive, while the underlying economies of many emerging market countries remain sound. In addition, we expect the effects of US fiscal stimulus to fade. This should limit any further upside for the US dollar, which we think has become expensive. A weaker US dollar would be positive for emerging markets.

To fund the purchase of emerging market debt, we reduced our position in cash. However, we continue to hold a modest allocation. This provides us with the flexibility to re-invest in growth assets should further attractive opportunities arise. We expect heightened market volatility over the coming year, which should prove conducive for further rebalancing.

# Risk Management and Control Update

Portfolio Risk Management Governance	
Multi-Manager Strategies Team	Nothing to Report
Investment Risk	Nothing to Report
Investment Governance	Nothing to Report
Risk Management	
Investment Restrictions Control	Nothing to Report

# Fund Manager Meetings

During the quarter, the Multi-Manager Strategies Team met with the following asset managers.

Aberdeen Standard Investments	Lazard
Allianz Global Investors	Legg Mason
Artemis	Livingbridge
Baillie Gifford	M&G
Barings	Maitland
BlackRock	Majedie Asset Management
BNY Mellon	Mayfair Capital Investment Management
Brookfield	Merian Global Investors
Brown Advisory	Morant Wright
Candriam	Nomura
Columbia Threadneedle	Nuveen
Eastspring Investments	Payden & Rygel
EFG	Pictet
Fidelity	PIMCO
First State	PineBridge
Fisher Investments	Pioneer Investments
GLG Partners	Prusik
Hermes Fund Managers	Putnam
Invesco	Robeco
Investec	Royal London
J O Hambro	RWC
Janus Henderson	Savills
JPMorgan	Schroders
Jupiter	Spyglass Capital Management
Kames Capital	

# Fund Changes

MyFolio Managed		
	Buys	Sells
Q2 2019	No changes	No changes

MyFolio Market		
	Buys	Sells
Q2 2019	No changes	No changes

MyFolio Multi-Manager		
	Buys	Sells
Q2 2019	First State Asia Focus Fund RWC Global Emerging Markets Fund	Janus Henderson Emerging Markets Opportunities Fund Mirae Asset Asia Sector Leader Equity Fund

MyFolio Multi-Manager Income		
	Buys	Sells
Q2 2019	JOHCM UK Equity Income Fund BlackRock Continental European Income Fund Legg Mason RARE Global Infrastructure Income Fund Royal London UK Equity Income Fund Eaton Vance Emerging Markets Local Income Fund Amundi Emerging Markets Bond Fund	Standard Life Investments Global Absolute Return Strategies Fund Janus Henderson UK Property Fund LF Morant Wright Nippon Yield Fund JPM US Equity Income Fund Invesco Global Targeted Income Fund Charlemagne Magna Emerging Markets Dividend Fund AQR Systematic Total Return Fund

Fund changes may not apply at every risk level.

# Market Review and Outlook

## Market review

Global equity market performance diverged over the last 12 months. The US was the best performer among major markets, while Europe was up, the UK was flat, and Japan and Asia Pacific were down.

At the start of the period, the US S&P 500 Index hit an all-time high, driven by a buoyant economy. Thereafter, investors paid close attention to political concerns, from Brexit to the simmering US-China trade war. Towards the end of 2018, markets across the globe weakened, erasing previous gains. Losses came as concerns resurfaced over political risks and the potential for rising interest rates. In particular, many questioned the decision to raise US rates in December.

Markets rebounded at the start of 2019. US stocks enjoyed their best January in more than 30 years, supported by a more favourable interest rate outlook and upbeat corporate results. However, global equity markets tumbled in May, as US-China trade relations worsened again. In the UK, Prime Minister Theresa May announced her resignation, increasing the possibility of a 'no-deal' Brexit. However, equities rebounded in June as the US and China agreed to restart trade talks following the G20 summit. Meanwhile, central banks in the US, Europe and Japan hinted at plans for further economic stimulus measures.

Key factors influencing the performance of global government bonds included the global economic growth outlook and the path of US interest rates. Heightened risk aversion in March 2019 drove demand for the safety of German bunds and UK gilts. Yields fell to their lowest points since 2016 and 2017 respectively, as a result. Renewed risk appetite in April reversed these moves, but sentiment shifted again in May after a new round of tariffs between the US and China. Thereafter, bonds rose (yields fell) in June on the prospect of interest-rate cuts from the world's major central banks. This, coupled with the easing of US-China trade tensions, helped corporate bonds rally in the second quarter of 2019 – rounding off a bumpy 12 months for the asset class.

Total returns from UK commercial real estate remained positive over the year to end-May (the latest data available). While the return was lower than in previous years, it remained attractive compared with the return from holding cash. The industrial sector outperformed all the other UK property sectors. Meanwhile, central London offices held-up well, despite ongoing concerns over the uncertain macroeconomic backdrop and Brexit-related paralysis.

## Outlook

Politics seem to be a key driver of global stock markets, making forecasting more difficult. For example, we don't know what the outcome of the US/China trade dispute will be. However, the market is signalling that this will be a more drawn-out dispute than previously thought. This brings increasing risk of an economic slowdown and further bouts of volatility. Despite this, we remain cautiously optimistic. Central banks, notably the US Federal Reserve, have indicated they will act to support their economies if needed. Interest rate cuts are now back on the table. This should support equities. Meanwhile, corporate earnings estimates remain solid.

Political and economic factors are also likely to have a significant impact on fixed income markets. With political risks seemingly rising again and economic data patchy at best, central banks are becoming increasingly dovish. With government bond yields falling (to below zero in some cases) in recent months, history would suggest that investors may again start searching for yield as interest rates remain low. The hunt for yield should also support corporate bonds, which remain moderately attractive.

Within UK commercial real estate, political uncertainty is contributing to greatly reduced market liquidity. We expect values to continue to fall during the third quarter of 2019. In addition, we expect only marginally positive returns over the next three years. Uncertainty around Brexit adds further downside risk to our forecasts in the short term. This uncertainty may persist into the medium term should the political deadlock continue to weigh on the UK's economic outlook.

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The value of investments, and the income from them, can go down as well as up and an investor may get back less than the amount invested. Past performance is not a guide to future results.

Please refer to the Key Investor Information Document or the Prospectus for more details of the risks applicable to each fund in the MyFolio range.

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The logo for Aberdeen Standard Investments. It features the word "Aberdeen" in a dark blue font with a stylized blue wave-like graphic to its left. To the right of "Aberdeen" is the word "Standard" in a bold, dark blue font, followed by "Investments" in a lighter blue font below it. A small blue triangle points upwards to the right of the word "Standard".